

“Explaining Willingness to Pay for Pricing Reforms that Improve Electricity Service in India”

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### Executive Summary

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#### 1. What is the question?

Under what conditions do people accept price increases in exchange for improved electricity service? Artificially low electricity tariffs, which are common in much of India, pose a barrier to improving service quality, as they encourage overuse and undercut distribution companies' revenue. Yet reforming electricity tariffs poses a difficult political problem, as the public often resists price increases. Using survey data from a half-rural, half-urban sample of 1,960 respondents from Uttar Pradesh, in tandem with an embedded survey experiment, we study the determinants of the public's willingness to pay for price increases that improve electricity service.

#### 2. What is the answer?

Individuals are more likely to pay for service improvements when they expect that others will do the same. For one, respondents with greater levels of social trust were more willing to pay for service improvements than were respondents with low levels of trust. Additionally, respondents were more willing to pay when faced with a scenario in which a higher percentage of their neighbors had agreed to contribute. By contrast, there is no evidence that respondents had feelings of entitlement to receiving free public services that shaped their willingness to pay.

#### 3. What does this mean for policy and practice?

Fostering social trust offers a path toward electricity pricing reform. At the same time, given the low average willingness to pay (40 rupees, or US\$0.56, for four additional hours per day), it is clear that poverty – and not only trust and other socio-political factors – remains a critical obstacle to pricing reform in Uttar Pradesh, and especially so in the rural areas of the state. The article introduces freely available data from the survey.

#### 4. About ISEP

The Initiative for Sustainable Energy Policy (ISEP) is an interdisciplinary research program that uses cutting-edge social and behavioral science to design, test, and implement better energy policies in emerging economies. Hosted at the Johns Hopkins School of Advanced International Studies (SAIS), ISEP identifies opportunities for policy reforms that allow emerging economies to achieve human development at minimal economic and environmental costs. The initiative pursues such opportunities both pro-actively, with continuous policy innovation and bold ideas, and by responding to policymakers' demands and needs in sustained engagement and dialogue.

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